

HSBC Taiwan Manufacturing PMI™

Operating conditions improve at the quickest pace since March 2012

Summary

Operating conditions in Taiwan's manufacturing sector improved for the second successive month in October. Moreover, the rate of improvement quickened from the previous month to the strongest since March 2012. Growth of output and new orders rose solidly during October, amid reports of strengthened client demand at both home and abroad. Greater volumes of new business led to the fastest accumulation of work-in-hand since April 2012, while firms continued to expand workforce numbers in an effort to raise productive capacity.

The PMI posted at 53.0 in October, up from 52.0 in September, and signalled a solid improvement of business conditions in Taiwan's manufacturing sector. Furthermore, it was the quickest rate of improvement in over a year-and-a-half.

Output levels and new orders rose solidly at Taiwanese manufacturers during October. Moreover, it was the quickest expansions of both production and new work since March 2012. New order growth was linked by panellists to stronger client demand, in both domestic and international markets, with new export orders also rising at a solid pace. Anecdotal evidence mentioned higher demand in Europe and the US in particular.

Employment levels increased for the fifth month running in October. The rate of job creation was moderate, having eased slightly since September's 29-month high. According to some panellists, payroll numbers increased due to higher production requirements. Backlogs of work also rose over the month, and at the fastest rate since April 2012. A number of surveyed firms suggested that new order growth led to an increased amount of work-in-hand.

Purchasing activity in Taiwan's manufacturing sector increased for the second month in a row. Furthermore, the rate of growth was the quickest since March 2012. Concurrently, stocks of purchases rose for the second consecutive month and at a moderate pace.

Stronger demand for inputs led to a further lengthening of average lead times. That said, suppliers' delivery times increased at a modest pace overall.

Average input costs faced by Taiwanese manufacturers increased again in October. The rate of input price inflation was little-changed from September. However, firms generally chose to absorb increased cost burdens as average tariffs were cut for the nineteenth month in a row. That said, the rate of discounting was the second-weakest in six months.

Comment

Commenting on the Taiwan Manufacturing PMI™ survey, Ronald Man, Economist at HSBC in Asia said:

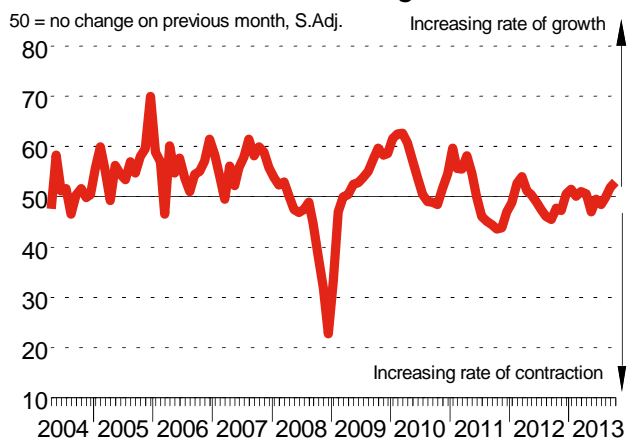
"Taiwan is entering the final quarter of the year on a strong note. Improvements in output and new orders suggest that sequential growth will pick up. But without a meaningful increase in demand from China, the export-led recovery in Taiwan will unlikely be sustained. We expect Taiwan's negative output gap to gradually narrow through the rest of 2013 and the CBC will likely keep rates low at 1.875%, before delivering a 12.5bp hike in 2Q 2014."

Key points

- Both output and new orders expand at faster rates
- Payroll numbers increase for the fifth successive month
- Backlogs of work increase at the quickest pace in 18 months

Historical Overview

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Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Taiwan Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 300 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Taiwanese GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index*[™] (*PMI*[™]) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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